



February 5, 2003

Ms. Mary Lee Widener
Chair
Federal Home Loan Bank of San Francisco
600 California Street, Suite 300
San Francisco, CA 94108

RE: Implementation of Federal Home Loan Bank of San Francisco Capital Plan (2003-APP-03)

Dear Ms. Widener:

On June 12, 2002, the Board of Directors of the Federal Housing Finance Board (Finance Board) approved the capital plan of the Federal Home Loan Bank of San Francisco (Bank) subject to the Bank receiving approvals of its risk assessment procedures and controls and internal market risk model pursuant to 12 C.F.R. § 932.1. In my letter of November 15, 2002, we approved your risk assessment procedures and controls.

We have reviewed the materials that the Bank submitted in support of its request for approval of its market risk model and have held a number of conversations with Bank staff about its risk modeling procedures and assumptions. Given the Bank's current portfolio and modeling capabilities, the Bank models its interest rate and basis risk adequately and takes proper account of the optionality of both its on- and off-balance-sheet instruments. Based on the results of our review, pursuant to 12 C.F.R. § 932.1, the Finance Board approves the Bank's market risk model. This approval is based, in part, on an understanding that the Bank will employ, in general, pricing assumptions that reflect the terms, rates, volatilities and spreads found in the market on the "as-of" date for which the market risk capital requirement is being calculated.

This approval is further based on the information, representations and commitments made by the Bank. Any material change in the information, representations or commitments made by the Bank, or in the Bank's business plan or operations, prior to the Bank's conversion to its new capital plan, would be a cause for us to modify, change, or rescind our approval.

Sincerely,

/s/ Stephen M. Cross

Stephen M. Cross
Director
Office of Supervision

cc: Dean Schultz